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The Outlook for Mexico

Key Judgments

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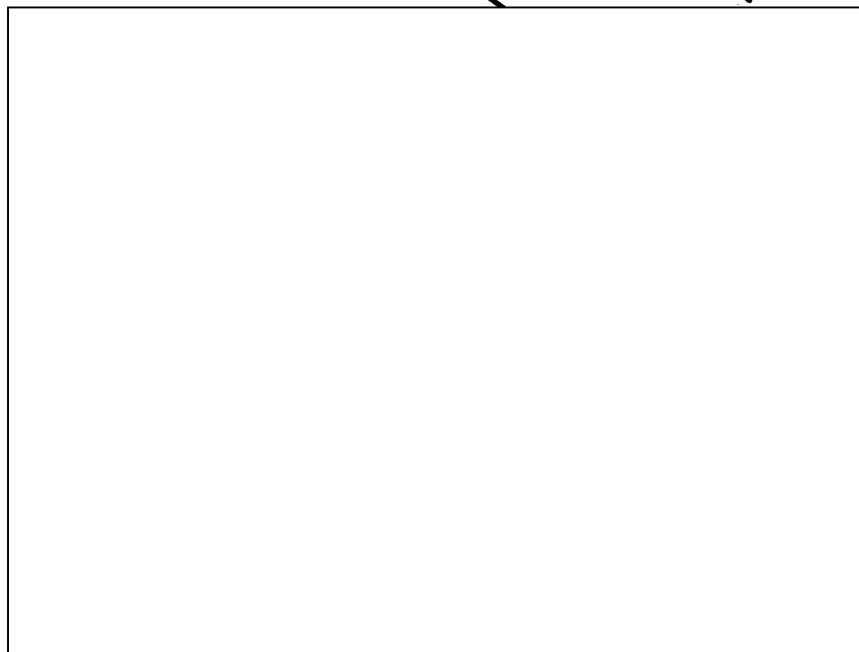
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NIE 81-84

THE OUTLOOK FOR MEXICO

KEY JUDGMENTS

The full text of this Estimate is
being published separately with regular distribution.

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THIS ESTIMATE IS ISSUED BY THE DIRECTOR OF CENTRAL INTELLIGENCE.

THE NATIONAL FOREIGN INTELLIGENCE BOARD CONCURS, EXCEPT AS NOTED IN THE TEXT.

The following intelligence organizations participated in the preparation of the Estimate:

The Central Intelligence Agency, the Defense Intelligence Agency, the National Security Agency, and the intelligence organization of the Department of State.

Also Participating:

The Assistant Chief of Staff for Intelligence, Department of the Army

The Director of Naval Intelligence, Department of the Navy

The Assistant Chief of Staff, Intelligence, Department of the Air Force

The Director of Intelligence, Headquarters, Marine Corps

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KEY JUDGMENTS

The Mexican political system is under greater stress today than at any time in the last 30 years. Ultimately, of course, the preservation of Mexico's stability will rest on the skill and competence of its leaders and on the strength of its political fabric. We judge that in the end the Mexican political system is likely to remain intact.

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During the last several years, Mexicans have grown increasingly dissatisfied with [REDACTED]

[REDACTED] their highly centralized political system. As a result, the popularity and vitality of the ruling Institutional Revolutionary Party (PRI) have sharply diminished. Moreover, political leaders have been slow to adapt the PRI to the profound changes that have occurred in Mexican society. The two branches of the party that historically have been the most important—organized blue-collar labor and the peasants—have been shrinking in size relative to other social and interest groups. Meanwhile, most of the millions of people who have come from the countryside to fill the sprawling slums around all of Mexico's major cities—slumdweller now constitute between 20 and 25 percent of the population—may not have been effectively brought into the system. Thus the informal patron-client relationships that have helped glue the system together are in danger of breaking. Not surprisingly, opposition forces have gained strength. [REDACTED]

When he was inaugurated President in December 1982, Miguel de la Madrid inherited a crisis more encompassing than any since the late 1930s. Under conditions of harsh austerity, high unemployment and underemployment, double- or triple-digit inflation, widespread business failures, and a crippling shortage of capital, the economy in 1983 contracted by about 6 percent. Virtually all social and economic groups have had to accept declining standards of living, scale down their expectations, and compete for benefits and opportunities in a negative-sum economic environment. De la Madrid has struggled to preserve social equilibrium and to restore public confidence in the political system. In particular, he has worked to distance himself from [REDACTED]

[REDACTED] President Lopez Portillo and other senior officials of the previous government. By pursuing an anticorruption campaign that has included the imprisonment of at least one former high official and revelations of abuses by others, and by projecting an image of fairness, competence, and probity, the President so far has provided generally effective and popular leadership.

De la Madrid's most striking success has been in engineering a turnaround in Mexico's international economic accounts. In a little over a year, austerity has brought spending in line with available resources, inflation has begun to decline, and some confidence in the government's policies has been restored. By slashing imports and public-sector expenditures, raising the real costs of most goods, and making other tough adjustments the regime has met most of the stabilization requirements of the International Monetary Fund (IMF). Interest is being paid

on the more than \$85 billion foreign debt, and by the end of 1983 the current account surplus reached about \$4 billion. With some flexibility to increase imports of badly needed capital and intermediate goods, Mexico probably will be able to stem the decline in economic activity and may perhaps recover this year.

De la Madrid's impressive performance thus far has prevented an immediate unraveling of the system, but has not been sufficient to dissipate the long-term threat to Mexico's stability. Although many variables will be involved, *the outlook through this decade and into the early 1990s will be shaped largely by the interplay of the following factors.*

The most important is probably de la Madrid himself: his outlook, psychology, skills, and leadership qualities.

The economy and labor will also be key. Economic growth almost certainly will be insufficient to create enough jobs for the burgeoning labor force. Resources probably will not be adequate to maintain traditional programs that have subsidized working-class groups and helped to keep them quiescent. Labor has suffered under austerity, and indefinite sacrifice is not likely. Thus, the President will increasingly have to make difficult trade-offs among economic objectives that will tend to alienate some politically important sectors while helping others. In the unlikely event that economic activity were to continue declining for another four or five years, the prospects for regime-threatening instability would rise significantly.

Conservative opposition forces generally will be more assertive. These forces are concentrated in the center-right National Action Party (PAN). We believe that the rise of opposition sentiment in the northern border region reflects the spectacular economic and demographic expansion there over the last decade or so, as well as dissatisfaction with the regime's economic policies and statist philosophy and tampering with election results. These trends have been paralleled, moreover, by indications of dissidence in Mexico's poor and underdeveloped southern states where Communist, radical, and other opposition groups are organizing.

Meanwhile, *extreme leftist groups are also active*. Leaders of the Unified Socialist Party of Mexico (PSUM), a Communist-dominated coalition, reportedly have decided to increase their recruiting and organizational efforts in the southern-tier states closest to Central America. Working through radical peasant, student, and labor groups, the PSUM could generate increased support for its causes, but it will most likely pose smaller and more containable challenges than the rightwing opposition.

Cuba and the Soviet Union maintain contact with and provide funding and other support to local leftists and revolutionaries from Central America and elsewhere, but with few exceptions they have been reluctant to support committed revolutionaries who would employ violent methods against the Mexican regime. Nonetheless, if levels of instability were to rise in Mexico, we believe it would be more likely that Cuba and the USSR would expand their subversive activities, and it would be easier for them to do so.

As long as relative stability continues, the military would be disinclined to intervene in the political process. Such intervention would violate rules that have governed their behavior since the 1940s.

[redacted]
any significant increase in instability or external threat, military involvement in the policy process would rise as more areas of governmental concern took on a security dimension.

We are reasonably certain that some transformation of the Mexican political system is likely during the period of this Estimate. [redacted]

[redacted]

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[REDACTED]

Whatever the true course of events, US political and economic interests will be affected substantially by conditions in Mexico during the period of this Estimate. The security of the US southern border depends on the continued existence of a stable, united, and peaceful Mexican neighbor. Other core interests—[REDACTED]

[REDACTED] the flow of illegal migrants and drugs into this country, the availability of Mexican petroleum, bilateral trade and investment relationships, and Mexico's continued willingness to make payments on its foreign debt—will be affected by Mexico's success in dealing with the challenges facing it.

[REDACTED]

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